

Internal Revenue Service, Treasury

§ 1.597-1

sales proceeds would be treated as ordinary income.

Example 3. (i) Facts. The facts are the same in example 1 except that X sells the acquired property for \$15,000.

(ii) *Treatment of rents, expenses, and sales proceeds.* X would treat rents, expenses, and sales proceeds in the following manner:

Basis of acquired property at acquisition (adjusted basis of indebtedness, i.e., \$20,000 principal plus \$700 interest)	\$20,700
Plus: Expenses charged to debtor	500
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	21,200
Less: Rents credited to debtor	400
Adjusted basis of acquired property at sale	20,800
Less: Portion of \$15,000 sales proceeds applied in reduction of adjusted basis of acquired property	15,000
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Amount charged to reserve for losses on qualifying real property loans	5,800

(iii) *Creditor using specific deduction method.* If instead of using the reserve method of accounting for bad debts X used the specific deduction method, the excess of \$5,800 would be allowed as a specific bad debt deduction.

[T.D. 6814, 30 FR 4473, Apr. 7, 1965]

§ 1.596-1 Limitation on dividends received deduction.

(a) *In general.* For taxable years beginning after July 11, 1969, in the case of mutual savings banks, domestic building and loan associations, and cooperative banks, if the addition to the reserve for losses on qualifying real property loans for the taxable year is determined under section 593(b)(2) (relating to the percentage of taxable income method), the total amount allowed as a deduction with respect to dividends received under part VIII, subchapter B, chapter 1, subtitle A of the Code (section 241 *et seq.*) (determined without regard to section 596 and this section) for such taxable year is reduced as provided by this section. In such case, the dividends received deduction otherwise determined under part VIII, subchapter B, chapter 1, subtitle A of the Code, is reduced by an amount equal to the applicable percentage for such year (determined solely under subparagraphs (A) and (B) of section 593(b)(2) and the regulations thereunder) of such total amount. For the rule under which a mutual savings bank, domestic building and loan association, or cooperative bank is deemed to have determined the addition to its reserve for losses on qualifying real property loans for the taxable year

under section 593(b)(2), see § 1.593-6A(a)(2).

(b) *Example.* The provisions of this section may be illustrated by the following example:

Example. X Corporation, a domestic building and loan association, determines the addition to its reserve for losses on qualifying real property loans under section 593(b)(2) for its taxable year beginning in 1971. During that taxable year, X Corporation received a total of \$100,000 as dividends from domestic corporations subject to tax under chapter 1 of the Code. X Corporation received no other dividends during the taxable year. Under part VIII, subchapter B, chapter 1, subtitle A of the Code, a deduction, determined without regard to section 596 and this section, of \$85,000 would be allowed with respect to the dividends. For the taxable year, the applicable percentage, determined under subparagraphs (A) and (B) of section 593(b)(2), is 54 percent. Under section 596 and this section, the amount allowed as a deduction under section 243 and the regulations thereunder is reduced by \$45,900 (54 percent of \$85,000) to \$39,100 (\$85,000 less \$45,900).

(c) *Dividends received by members of a controlled group.* If a thrift institution that computes a deduction under section 593(b)(2) is a member of a controlled group of corporations (within the meaning of section 1563(a), determined by substituting 50 percent for 80 percent each place it appears therein) and if the thrift institution, without a bona fide business purpose, transfers stock, directly or indirectly, to another member of the group, the Commissioner may allocate any dividends with respect to the stock to the thrift institution. If the Commissioner allocates a dividend to a thrifty institution under this paragraph (c), the Commissioner will also make appropriate correlative adjustments to the income of any other member of the group involved in the allocation, at a time and in a manner consistent with the procedures of § 1.482-1(d)(2). This paragraph (c) applies to taxable years ending on or after August 30, 1975.

[T.D. 7149, 36 FR 20944, Nov. 2, 1971, as amended by T.D. 7631, 44 FR 40496, July 11, 1979]

§ 1.597-1 Definitions.

For purposes of the regulations under section 597—

(a) Unless the context otherwise requires, the terms *consolidated group*,